

OGDEN PREPARATORY ACADEMY

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

OGDEN PREPARATORY ACADEMY
Financial Statements
Government Auditing Standards and Other Required Reports
Years Ended June 30, 2005 and 2004

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**The Board of Directors
Ogden Preparatory Academy, Inc.**

Independent Auditors' Report

We have audited the accompanying statements of financial position of Ogden Preparatory Academy, Inc. (a not-for-profit corporation) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Ogden Preparatory Academy as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 7, 2005 on our consideration of Ogden Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Schmitt, Griffiths, Smith & Co., P.C.

September 7, 2005



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Ogden Preparatory Academy
Statements of Financial Position
June 30, 2005 and 2004

	<u>2005</u>	<u>Restated 2004</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 191,461	\$ 28,153
Grants receivable	23,879	98,516
Total current assets	215,340	126,669
Property and equipment, net	241,376	99,289
Other assets	400	1,400
	<u>\$ 457,116</u>	<u>\$ 227,358</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 89,023	\$ 94,240
Related party payables	26,678	35,645
Accrued liabilities	77,918	64,248
Total current liabilities	193,619	194,133
Related party note payable	38,768	47,925
Total liabilities	232,387	242,058
Net assets:		
Unrestricted	224,729	(14,700)
Temporarily restricted	-	-
Permanently restricted	-	-
Total net assets	224,729	(14,700)
	<u>\$ 457,116</u>	<u>\$ 227,358</u>

See accompanying notes and independent auditors' report.

Ogden Preparatory Academy
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and gains:			
Contributions - cash	\$ -	\$ -	\$ -
Donations - in-kind	1,563	-	1,563
Grants:			
Federal	-	369,992	369,992
State	1,023,479	140,614	1,164,093
Local	12,650	-	12,650
Fund raising	1,925	-	23,797
Lunch sales	23,797	-	1,925
Miscellaneous	-	-	-
Net assets released from restriction	<u>510,606</u>	<u>(510,606)</u>	<u>-</u>
Total revenue, net of assets released from restriction	<u>1,574,020</u>	<u>-</u>	<u>1,574,020</u>
Expenses:			
Instructional - teachers	776,900	-	776,900
Instructional - aides	29,111	-	29,111
Administration operations	135,105	-	135,105
Student support service	77,587	-	77,587
Operation and maintenance of facility	289,825	-	289,825
Student transportation	2,938	-	2,938
Depreciation	<u>23,125</u>	<u>-</u>	<u>23,125</u>
Total expenses	<u>1,334,591</u>	<u>-</u>	<u>1,334,591</u>
Increase in net assets	239,429	-	239,429
Net assets, beginning (restated)	<u>(14,700)</u>	<u>-</u>	<u>(14,700)</u>
Net assets, end	<u>\$ 224,729</u>	<u>\$ -</u>	<u>\$ 224,729</u>

See accompanying notes and independent auditors' report.

Ogden Preparatory Academy
Statements of Activities and Changes in Net Assets, Continued
Years Ended June 30, 2005 and 2004

	<u>June 30, 2004 (Restated)</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and gains:			
Contributions - cash	\$ -	\$ 9,500	\$ 9,500
Donations - in-kind	3,061	-	3,061
Grants:			
Federal	-	103,695	103,695
State	737,802	65,055	802,857
Local	1,700	10,000	11,700
Fund raising	4,663	-	17,476
Lunch sales	17,476	-	4,663
Miscellaneous	3,193	-	3,193
Net assets released from restriction	<u>188,250</u>	<u>(188,250)</u>	<u>-</u>
Total revenue, net of assets released from restriction	<u>956,145</u>	<u>-</u>	<u>956,145</u>
Expenses:			
Instructional - teachers	562,036	-	562,036
Instructional - aides	34,561	-	34,561
Administration operations	28,367	-	28,367
Student support service	23,379	-	23,379
Operation and maintenance of facility	278,440	-	278,440
Student transportation	37,634	-	37,634
Depreciation	<u>6,428</u>	<u>-</u>	<u>6,428</u>
Total expenses	<u>970,845</u>	<u>-</u>	<u>970,845</u>
Decrease in net assets	(14,700)	-	(14,700)
Net assets, beginning	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end	<u>\$ (14,700)</u>	<u>\$ -</u>	<u>\$ (14,700)</u>

See accompanying notes and independent auditors' report.

**Ogden Preparatory Academy
Statements of Cash Flows
Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>Restated 2004</u>
Cash flows from operating activities:		
Increase in net assets	\$ 239,429	\$ (14,700)
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Depreciation	23,125	6,428
Change in operating assets and liabilities:		
Increase other assets	1,000	(1,400)
Increase in accounts payable	(5,217)	94,240
Increase in related party payable	(8,967)	35,645
Increase in accrued payables	13,670	64,248
(Increase) in grants receivable	74,637	(98,516)
Total adjustments	98,248	100,645
Net cash flows from operating activities	337,677	85,945
Cash flows from investing activities:		
Acquisition of property and equipment	(165,212)	(105,717)
Net cash flows from investing activities	(165,212)	(105,717)
Cash flows from financing activities:		
Issuance/(repayment) of related party note payable	(9,157)	47,925
Net cash flows from financing activities	(9,157)	47,925
Net change in cash	163,308	28,153
Cash, beginning	28,153	-
Cash, ending	\$ 191,461	\$ 28,153

Supplemental Disclosure of Noncash Investing Activities

During the year ended June 30, 2004, the Academy received in-kind contributions of equipment, supplies and professional services that totaled \$3,061.

Ogden Preparatory Academy, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of Ogden Preparatory Academy (the Academy) is presented to assist in understanding the Academy's financial statements. The financial statements and notes are representations of the Academy's management, who are responsible for their integrity and objectivity.

Operations and Purpose

The Academy was formed in 2003 and is a non-profit institution which was organized under the non-profit corporation laws of the State of Utah. The Academy was organized by a group of parents, teachers and business professionals to provide an educational opportunity in Ogden City that was not governed by the local school district. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or volunteering time in the classroom or with other needs the school may have as they arise.

Method of Accounting

The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents

The Academy considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Ogden Preparatory Academy, Inc.
Notes to Financial Statements, Continued
June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

Restrictions on Net Assets

Unrestricted Net Assets – The unrestricted net asset balance pertains primarily to amounts that are not designated for specific purposes apart from minimum school requirements.

Temporarily Restricted Net Assets – Donor restricted support is reported as an increase in temporarily restricted net assets. Temporarily restricted net assets are funds that are subject to restrictions of time or use by the donor. The restrictions are removed after the specified dates or after the occurrence of an event specified by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. There was no temporarily restricted net asset balance as of June 30, 2005 and 2004.

Permanently Restricted Net Assets – Permanently restricted net assets represents the cumulative amount of endowment contributions received. Endowment contributions are principal amounts donated with the agreement that only future earnings on the principal be available for the operations of the Academy. There was no permanently restricted net asset balance as of June 30, 2005 and 2004.

Contributions

The Academy has adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Property and Equipment

Property and equipment is recorded at cost. The Academy provides for depreciation of property and equipment using the straight-line method in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. The estimated useful lives are between three and ten years and individual items with a purchase cost over \$500 are depreciated rather than expensed.

Depreciation expense for the year ended June 30, 2005 and 2004 was \$23,125 and \$6,428, respectively.

Tax Status

The Academy is exempt from federal income taxes or excise taxes under Section 501(c)(3) of the Internal Revenue Code.

Ogden Preparatory Academy, Inc.
Notes to Financial Statements, Continued
June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

Contributed Services and In-Kind Donations

During the years ended June 30, 2005 and 2004, the value of contributed services meeting the requirements for recognition in the financial statements was \$1,563 and \$927, respectively. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Academy's facilities, but these services do not meet the criteria for recognition as contributed services.

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Equipment donated for the year ended June 30, 2005 and 2004 totaled \$0 and \$2,134, respectively.

(2) Property and Equipment

Property and equipment at June 30, 2005 and 2004 are comprised of the following:

Furniture, fixtures and equipment	\$	57,367	\$	35,939
Computers		43,579		18,367
Textbooks		158,690		48,181
Library books		2,773		-
Audio and visual materials		3,230		3,230
Capitalized software		1,290		-
Capital improvements		4,000		-
		<u>270,929</u>		<u>105,717</u>
Less accumulated depreciation		<u>(29,553)</u>		<u>(6,428)</u>
	\$	<u>241,376</u>	\$	<u>99,289</u>

(3) Related Party Transactions

Accounts Payable Transactions

The Academy received non-interest bearing advances from Academica Corporation (Florida), an affiliate, for start up loans and payroll expenses. For the years ended June 30, 2005 and 2004, related party accounts payable transactions totaled \$26,678 and \$35,645, respectively. The amount is due in one year.

Ogden Preparatory Academy, Inc.
Notes to Financial Statements, Continued
June 30, 2005 and 2004

(3) Related Party Transactions, Continued

Note Payable Transaction

The Academy had a note payable balance of \$38,768 and \$47,925 due to Academica West, an affiliate, for management services for the years ended June 30, 2005 and 2004, respectively. The amount is due in five years and is non-interest bearing.

Operating Lease Agreement

The Academy leases a facility under an operating lease with Ogden School Development, LLC, a limited liability company related by common management. Rental expense recognized under this lease for the years ended June 30, 2005 and 2004 was \$173,203 and \$131,637, respectively. Rent is adjusted during the life of the lease based on the consumer price index.

The future minimum lease payments under this operating lease are as follows:

<u>Years Ending June 30,</u>		
2006	\$	183,438
2007		183,438
2008		183,438
Thereafter		<u>-</u>
	\$	<u><u>550,314</u></u>

(4) Grants

The Academy received grants from federal, state and local sources. The total amount of grants received for the years ended June 30, 2005 and 2004 was \$1,546,735 and \$918,252, respectively.

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Ogden Preparatory Academy, Inc.
Notes to Financial Statements, Continued
June 30, 2005 and 2004

(5) Retirement Plan

The Academy has a defined contribution retirement plan covering all full-time, salaried employees. The plan is sponsored by A Plus Benefits, an outsource company that the Academy has contracted with to perform its payroll and retirement functions. Eligible employees may contribute money into an account, at their option and discretion. The Academy does not match employee contributions. The plan accepts new enrollments at any time in the year after completing a 90-day probationary period. Contribution changes can be made quarterly on or before the 15th day of the last month of the calendar quarter. Contributions to the plan for the years ended June 30, 2005 and 2004, totaled \$16,733 and \$15,268, respectively.

(6) Prior Period Adjustment

An adjustment was made to increase expenses and accrued liabilities for the fiscal year end 2004 in the amount of \$63,600. The adjustment resulted from the omission of an accrual to record compensation expense. The correction has affected current year net assets by the same amount.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Board of Education Ogden Preparatory Academy, Inc.

We have audited the financial statements of Ogden Preparatory Academy, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated September 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ogden Preparatory Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ogden Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Academy in a separate letter dated September 7, 2005.



This report is intended solely for the information of the audit committee, administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schmitt, Griffiths, Smith & Co., P.C.

September 7, 2005

Ogden Preparatory Academy, Inc.
Summary Schedule of Prior Findings
June 30, 2005

PRIOR YEAR FINDING - FINANCIAL STATEMENT AUDIT

04-1 Financial Accounting and Reporting Policies and Procedures

Condition: Our audit procedures disclosed a lack of accounting knowledge and policies and procedures necessary to enable the Academy to produce materially accurate financial statements in a timely manner.

Recommendation: We recommend that the Academy make arrangements to produce materially correct financial statements in accordance with generally accepted accounting principles.

Administration Response: Ogden Preparatory Academy Inc. (OPA) and its management (Jed Stevenson, Academica West) and administrative staff have and will make arrangements to produce materially correct financial statements in accordance with generally accepted accounting principles. OPA's management has hired additional experienced staff with direct supervisory responsibility of the accounting/bookkeeping staff. Additionally, it should be noted, that after completing OPA's first year of operation, proper procedures have been learned while working closely with a reputable accounting firm. These procedures will be implemented during the current and all subsequent years.

Status: Management has implemented the recommendation.

Schmitt, Griffiths, Smith & Co., P.C.

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Independent Auditors' Report State of Utah Legal Compliance

Honorable Board of Education Ogden Preparatory Academy, Inc.

We have audited the basic financial statements of Ogden Preparatory Academy for the year ended June 30, 2005, and have issued our report thereon dated September 7, 2005. As part of our audit, we have audited Ogden Preparatory Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Academy received the following major state assistance programs from the State of Utah:

Minimum School Program

Our audit also included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Administration
Purchasing Requirements
Budgetary Compliance
Other General Compliance Issues

The administration of Ogden Preparatory Academy, Inc. is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed four instances of noncompliance with the requirements referred to above, which are described in the accompanying State Compliance Schedule of Findings.



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In our opinion, Ogden Preparatory Academy, Inc., complied, in all material respects, with the exception of those items referred to in the schedule of findings, with the general compliance requirements identified above and the requirements governing types of service allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Schmidt, Griffith, Smith & Co. P.C.

September 7, 2005

Ogden Preparatory Academy, Inc.
State Compliance Schedule Audit Findings, Continued
June 30, 2005

CURRENT YEAR FINDINGS – STATE COMPLIANCE

05-1 Treasury Bond

Condition: The State of Utah requires that every public treasurer shall secure a fidelity bond, based on the current year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. In the current year, the Academy did not secure a fidelity bond based on the current year's budgeted gross revenue.

Recommendation: We recommend that the Academy secure a fidelity bond based on fiscal year 2005 budgeted gross revenues.

Administration Response: OPA and its administration will secure a bond as recommended.

05-2 Purchasing Policy

Condition: The State of Utah requires that purchasing procedures and policies be documented that contain certain provisions, including purchases of supplies, services and construction. Our audit procedures indicated that the purchasing policy adopted by the Academy did not comply with some of the State of Utah's purchasing procedures and policies.

Recommendation: We recommend that the Academy review their current purchasing policy to ensure it fully complies with all of the State of Utah's purchasing procedures and policies.

Administration Response: OPA will review its purchasing policy and make the necessary changes so that it is in compliance with state guidelines.

05-3 Budgetary Policy

Condition: The State of Utah requires that expenditures do not exceed the final adopted budget expenditures. During the fiscal year ended June 30, 2005, the Academy's expenditures exceeded the adopted budget amounts.

Recommendation: We recommend that the Academy establish controls necessary to ensure that expenditures do not exceed the appropriated final adopted budget expenditures.

Ogden Preparatory Academy, Inc.
State Compliance Schedule Audit Findings, Continued
June 30, 2005

CURRENT YEAR FINDINGS – STATE COMPLIANCE, CONTINUED

05-3 Budgetary Policy, Continued

Administration Response: OPA acknowledges that expenditures exceeded the budget due to school expansion to include a middle school. OPA will take the necessary steps to make sure that expenditures are within budgeted amounts.

05-4 Cash Management

Condition: The State of Utah requires that receipts be deposited within three business days of being received. During the fiscal year ended June 30, 2005, the Academy did not always deposit receipts within the three day period.

Recommendation: We recommend that the Academy establish controls necessary to ensure that receipts are deposited within three business days of being received.

Administration Response: OPA will take actions to assure that deposits are made within three business days.

PRIOR YEAR FINDINGS – STATE COMPLIANCE

04-1 Reporting Deadline

Condition: The State of Utah requires that the financial audit report be filed on or before December 31, 2004. In the current year, the Academy did not file the financial audit report on or before December 31, 2004.

Recommendation: We recommend that the Academy review its accounting staff to ensure that it is competently staffed.

Administration Response: OPA and its management and administrative staff have and will make arrangements to produce materially correct financial statements in accordance with generally accepted accounting principles in a timely manner. OPA's management has hired additional experienced staff with direct supervisory responsibility of the accounting/bookkeeping staff. Additionally, it should be noted, that after completing OPA's first year of operation, proper procedures have been learned while working closely with a reputable accounting firm. These procedures will be implemented during the current and all subsequent years.

Status: Management has implemented the recommendation.

Ogden Preparatory Academy, Inc.
State Compliance Schedule Audit Findings, Continued
June 30, 2005

PRIOR YEAR FINDINGS – STATE COMPLIANCE, CONTINUED

04-2 Treasury Bond

Condition: The State of Utah requires that every public treasurer shall secure a fidelity bond, based on the current year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. In the current year, the Academy did not secure a fidelity bond based on the current year's budgeted gross revenue.

Recommendation: We recommend that the Academy secure a fidelity bond based on fiscal year 2004 budgeted gross revenues.

Administration Response: OPA will secure a fidelity bond based on fiscal year 2004 budged gross revenues.

Status: Management has not implemented the recommendation. See current year finding 05-1

04-3 Purchasing Policy

Condition: The State of Utah requires that purchasing procedures and policies be documented that contain certain provisions, and purchases of supplies, services and construction. Our audit procedures indicated that the Academy did not document such purchasing policies.

Recommendation: We recommend that the Academy document purchasing procedures and policies required by the State of Utah.

Administration Response: OPA will properly adopt and document purchasing procedures and policies required by the State of Utah.

Status: Management has not implemented the recommendation. See current year finding 05-2.

Ogden Preparatory Academy, Inc.
State Compliance Schedule Audit Findings, Continued
June 30, 2005

PRIOR YEAR FINDINGS – STATE COMPLIANCE, CONTINUED

04-4 Budget Approval

Condition: The State of Utah requires that the budget be formally adopted and approved and recording thereof in the minutes. Our audit procedures indicated that the budget was formally adopted per review of the Academy's minutes.

Recommendation: We recommend that the Academy formally adopt its budget by recording it in the minutes.

Administration Response: Although a budget was formally adopted in an open and public board meeting for this reporting year, it apparently was mistakenly not reported in the meeting minutes. For the current and all subsequent years OPA will formally adopt its budget by recording it in the minutes.

Status: Management has implemented the recommendation.

04-5 Retention Policy

Condition: The State of Utah requires entities to adopt a board policy to follow the state record retention policy. In the current year, the Academy did not establish a board policy to follow the state record retention policy.

Recommendation: We recommend that the Academy adopt a board policy to follow state record retention policy.

Administration Response: OPA will adopt a board policy to follow state record retention policy.

Status: Management has implemented the recommendation.